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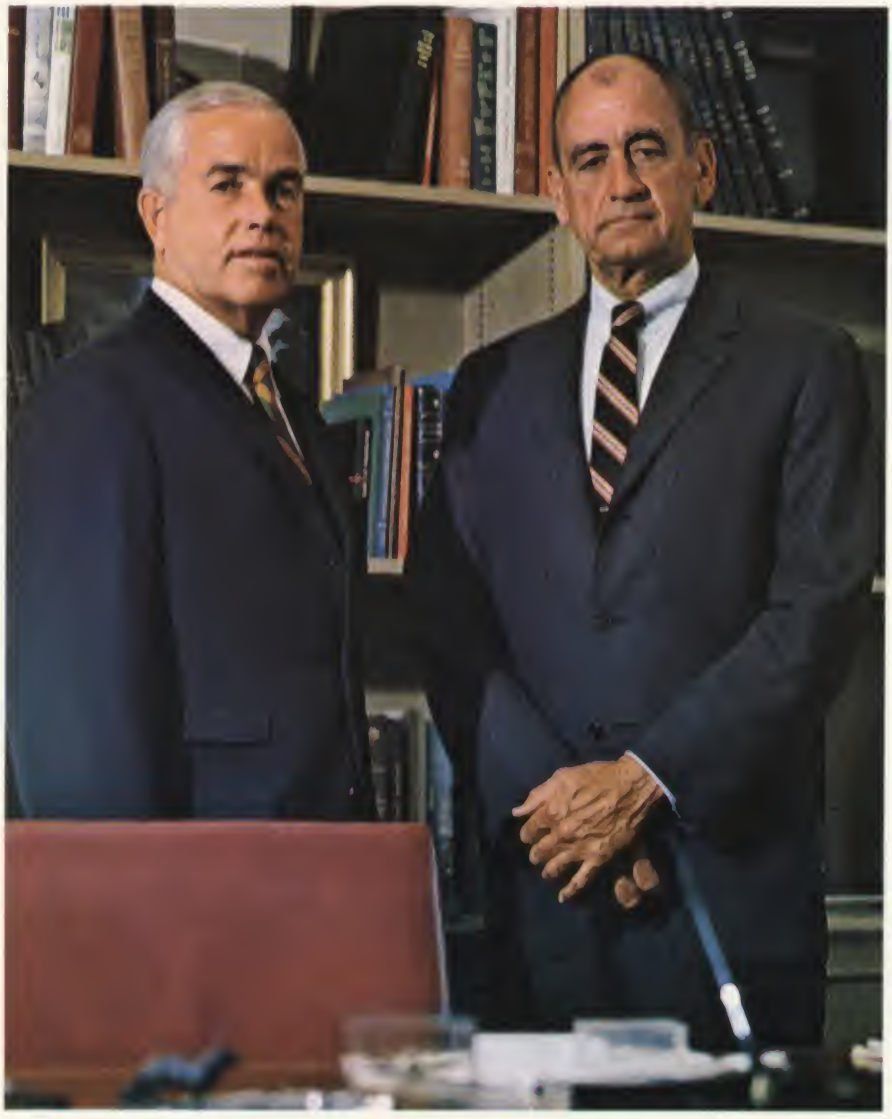
ANNUAL REPORT

Strawbridge & Clothier

FISCAL YEAR 1968 ENDED FEBRUARY 1, 1969

ENTERING OUR SECOND CENTURY

1868-1969



STOCKTON STRAWBRIDGE
Chairman of the Board

RANDALL E. COPELAND
President

PHILADELPHIA

ARDMORE

JENKINTOWN

WILMINGTON

CHERRY HILL

SPRINGFIELD

PLYMOUTH MEETING

NESHAMINY

Strawbridge & Clothier

ANNUAL REPORT

FISCAL YEAR 1968 ENDED FEBRUARY 1, 1969

BOARD OF DIRECTORS

G. Stockton Strawbridge, *Chairman*

J. Clayton Strawbridge

Dwight G. Perkins

Robert E. Strawbridge, Jr.

Randall E. Copeland

Frank R. Veale

Winthrop deV. Schwab

James M. Gassaway

Francis R. Strawbridge, III

Peter S. Strawbridge

OFFICERS

G. Stockton Strawbridge . . *Chairman of the Board and Chief Executive Officer*

Randall E. Copeland . . . . . *President and General Manager*

Frank R. Veale . . . . . *Executive Vice-President*

Winthrop deV. Schwab . . . . . *Executive Vice-President and Treasurer*

J. Clayton Strawbridge . . . . . *Vice-President and Secretary*

James M. Gassaway . . . . . *Vice-President for Planning and Development*

George L. Cullen . . . . . *Vice-President for Personnel*

Mark Fisher . . . . . *Vice-President for Publicity*

Timothy E. McNamara . . . . . *Vice-President for Merchandising*

Kenneth J. Brownell . . . . . *Vice-President and General Merchandise Manager*

George L. Compton . . . . . *Vice-President and General Merchandise Manager*

Richard H. Hall . . . . . *Vice-President and Controller*

Morris S. Hanson . . . . . *Vice-President and Administrative Assistant to the Chairman and President*

John J. Leahy . . . . . *Vice-President and General Superintendent*

TRANSFER AGENTS AND REGISTRARS

GIRARD TRUST BANK, Philadelphia, Pa.

Transfer Agent *for the $5 Cumulative Preferred Stock and* Registrar *for the Common Stock*

THE FIRST PENNSYLVANIA BANKING & TRUST COMPANY, Philadelphia, Pa.

Transfer Agent *for the Common Stock and* Registrar *for the $5 Cumulative Preferred Stock*

TO OUR SHAREHOLDERS:

Strawbridge & Clothier completed its first century of growth establishing new records in sales and profits.

For the fiscal year 1968 (52 weeks), sales volume reached $135,726,118, an increase of 9.0% over fiscal 1967 (53 weeks) sales of $124,527,299. Our Neshaminy store, opened in August, 1968, has enjoyed an excellent response from the Northeast Philadelphia and Lower Bucks County communities of metropolitan Philadelphia. Sales of this new unit are fulfilling our expectations in this fast growing trading area. All Strawbridge & Clothier stores achieved increased sales except Jenkintown, where the impact of the new Neshaminy store resulted in an anticipated small sales decline for the year.

Net earnings for 1968 were $5,648,547 compared to $5,263,851 in 1967, an increase of 7.3%. Despite the adverse effect of the federal tax surcharge (which reduced net earnings by $524,000, or 48¢ per share of common stock), pre-opening expenses of the Neshaminy store and a large LIFO inventory adjustment, a substantially improved profit from operations produced higher net earnings. Earnings per share of Common Stock were $4.89 in 1968 compared to $4.53 in 1967, both amounts calculated on the number of shares outstanding at February 1, 1969.

On February 28, 1969 the Board of Directors declared a 7% stock dividend on the Common Stock, payable April 15, 1969 to shareholders of record at the close of business March 14, 1969.

In addition to the opening of the Neshaminy store, the year 1968 was marked by the publication of a history of the store's full century of business at the corner of Eighth and Market Streets. The book, "Family Business", written by Alfred M. Lief and published by McGraw-Hill, is available to shareholders upon request.

Our program of modernization and improvement in all our stores continues to benefit our customers with convenient and contemporary shopping facilities. The new Distribution Center, announcement of which was reported in our annual statement last year, is now under construction. This 700,000 square foot building, located on land adjacent to the Philadelphia International Airport, will be ready for occupancy by the end of this year. These new facilities will enable us to supply our growing number of stores with more efficient merchandise handling and improved customer service.

The company's electronic data processing program is proceeding on schedule. The Accounts Receivable Department will be fully automated by the fall of this year, bringing to our customers all the advantages of completely modern billing techniques.

Improvements have just been completed in the subway station at Eighth and Market Streets in Philadelphia, and the initiation of regular service on the Delaware River Port Authority's new high speed line to this station from Lindenwold, New Jersey, opens up a new convenience of transportation to our main store for residents of southern New Jersey.

This summer the company will start construction of its eighth branch store at Echelon, New Jersey (see map inside back cover). This location, near the Lindenwold terminus for the high speed line referred to above, promises to be one of the most dramatic opportunities for expansion in our trading area. The Port Authority automated train service—one of the most significant public transportation improvements in the country—will greatly accelerate the development of this South Jersey area. The Rouse Company, leading developer of shopping centers, with whom Strawbridge & Clothier has worked in creating Cherry Hill and Plymouth Meeting, will develop not only a giant, two-level shopping center, but a town center as well. The latter will include an environment of homes, offices, parks, and public facilities—a planning concept that will be unique in the Delaware Valley.

At the January meeting of the Board of Directors, Frank R. Veale and Winthrop deV. Schwab were elected Executive Vice Presidents. Mr. Veale continues his responsibility for the Operations and Personnel Divisions and Mr. Schwab continues as Treasurer responsible for the Control Division and for corporate finance.

To further strengthen the management organization, five new corporate officers were elected: Kenneth J. Brownell, Vice President and General Merchandise Manager; George L. Compton, Vice President and General Merchandise Manager; Richard H. Hall, Vice President and Controller; Morris S. Hanson, Vice President and Administrative Assistant to the Chairman and President; and John J. Leahy, Vice President and General Superintendent.

The sound condition of the company and its plans for growth and expansion give us confidence to view the long range outlook with optimism.

As we close our Centennial Year, we take the greatest satisfaction in what is certainly our company's most enduring asset—the quality of the people who make up our Store Family. Over the years, and indeed never more significantly than now, by their skills, loyalties and friendliness, they have built for Strawbridge & Clothier an enviable reputation. Our Board of Directors joins us in expressing sincere appreciation for the dedicated efforts and contributions of this wonderful organization.

Respectfully,

Stockton Strawbridge

Chairman of the Board

Rowland E Copeland

President

March 31, 1969

FINANCIAL HIGHLIGHTS

	1968	*1967*
Net retail sales	$135,726,118	$124,527,299
Earnings before LIFO adjustment and taxes	12,649,480	10,921,985
LIFO adjustment—increase	625,933	363,134
Earnings before taxes	12,023,547	10,558,851
Taxes on income	6,375,000	5,295,000
Net earnings	5,648,547	5,263,851
Earnings Per Share on Common Stock (calculated on number of shares outstanding at February 1, 1969)	4.89	4.53
Cash dividends on Preferred Stock	260,514	267,960
Cash dividends on Common Stock	1,321,715	1,235,622
Stock dividend on Common Stock	72,078 shs.	49,033 shs.
Earnings retained for use in the business	4,066,318	3,760,269

	February 1, 1969	*February 3, 1968*
Current Assets	$48,006,670	$44,618,514
Current Liabilities	15,466,374	12,003,746
Ratio of Current Assets to Current Liabilities	3.10 to 1	3.72 to 1
Working Capital	32,540,296	32,614,768
Long-Term Indebtedness	5,644,120	5,943,045
Preferred Stock	5,130,600	5,329,300
Common Stock Equity	52,221,112	48,133,971
Book Value Per Share of Common Stock (calculated on number of shares outstanding at February 1, 1969)	47.40	43.69

ERNST & ERNST

PHILADELPHIA

To the Shareholders of

Strawbridge & Clothier

We have examined the statement of financial condition of Strawbridge & Clothier as of February 1, 1969, and the related statements of earnings and stockholders' investment for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination and report for the fiscal year ended February 3, 1968.

In our opinion, the accompanying statement of financial condition and related statements of earnings and stockholders' investment present fairly the financial position of Strawbridge & Clothier at February 1, 1969, the results of its operations and other changes in stockholders' investment for the fiscal year then ended, in conformity with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Philadelphia, Pa.
March 22, 1969

STATEMENT OF EARNINGS

	Year Ended (52 Weeks) February 1, 1969	Year Ended (53 Weeks) February 3, 1968
Net retail sales, including leased department sales	$135,726,118	$124,527,299
Other income, net of other deductions	63,365	44,488
	135,789,483	124,571,787
Deduct:		
Cost of sales, including merchandise, alteration, occupancy and buying costs, exclusive of depreciation using both straight line and double declining balance methods—Note B	96,398,548	89,689,973
Selling, publicity, delivery and administrative expenses	23,364,444	20,549,476
Depreciation and amortization	2,002,853	1,778,066
Pension cost—Note G	1,299,438	1,349,477
Interest on long-term debt	276,380	291,455
Interest—other	424,273	354,489
	123,765,936	114,012,936
EARNINGS BEFORE INCOME TAXES	12,023,547	10,558,851
Federal and state income taxes—Note D	6,375,000	5,295,000
NET EARNINGS	$ 5,648,547	$ 5,263,851
Per share earnings applicable to common stock (based on common stock outstanding at February 1, 1969, after recognition of the dividend requirements on the $5 Cumulative Preferred Stock)	$4.89	$4.53

See notes to financial statements.

ASSETS

	February 1, 1969	*February 3, 1968*
CURRENT ASSETS		
Cash	$ 1,340,063	$ 2,758,838
Accounts receivable:		
Customers:		
Regular charge accounts	15,867,247	12,099,363
Deferred payment accounts	7,989,551	7,115,751
Flexible charge accounts—Note A	5,618,573	5,973,203
Suppliers and sundry	991,438	1,016,613
	30,466,809	26,204,930
Allowance for loss	850,000	750,000
	29,616,809	25,454,930
Merchandise inventories—Note B	16,629,798	14,982,072
Recoverable costs incurred in connection with property sold	—	1,002,674
Mortgage note installment receivable within one year	420,000	420,000
TOTAL CURRENT ASSETS	48,006,670	44,618,514
OTHER ASSETS		
Notes receivable, secured by mortgages—receivable after one year	1,824,263	1,824,263
Cash on deposit with trustee for redemption of $5 Cumulative Preferred Stock—Note C	191,153	191,170
Miscellaneous accounts receivable and advances	57,750	47,950
Sundry investments, less reserve of $25,000	244,991	244,991
	2,318,157	2,308,374
PROPERTY, FIXTURES, AND EQUIPMENT—on the basis of cost		
Land	5,959,195	6,019,195
Buildings and improvements	25,030,698	24,019,457
Store fixtures, furniture and equipment	25,673,608	21,583,509
Allowance for depreciation (deduction)	(28,102,045)	(26,099,676)
	28,561,456	25,522,485
Construction in progress—Note H	1,357,916	539,000
	29,919,372	26,061,485
DEFERRED CHARGES		
Prepaid expenses	1,042,166	832,883
Supply inventories	347,402	262,806
	1,389,568	1,095,689
	$81,633,767	$74,084,062

LIABILITIES AND STOCKHOLDERS' INVESTMENT

	February 1, 1969	*February 3, 1968*
CURRENT LIABILITIES		
Notes payable to bank	$ 2,500,000	$ —
Accounts payable	6,249,615	5,109,095
Accrued accounts	1,232,965	1,232,458
Payroll taxes and amounts withheld from employees	325,332	310,657
Federal, state and local taxes	1,941,433	2,600,536
Deferred income taxes on installment sale gross profits	2,356,500	2,221,000
Dividend payable	330,529	—
Long-term debt due within one year	530,000	530,000
TOTAL CURRENT LIABILITIES	15,466,374	12,003,746
LONG-TERM DEBT—due after one year—Note E	5,644,120	5,943,045
RESERVES		
For future income taxes—Note D	1,874,984	672,000
For pensions, deferred compensation and contingencies —Note G	1,296,577	2,002,000
	3,171,561	2,674,000
TOTAL LIABILITIES	24,282,055	20,620,791
STOCKHOLDERS' INVESTMENT		
Capital Stock:		
$5 Cumulative Preferred Stock, par value $100 per share, redeemable at $105 per share—at February 1, 1969, authorized 55,010 shares; outstanding 51,306 shares, after deducting 3,704 shares in treasury (outstanding at February 3, 1968, 53,293 shares)—Note C	5,130,600	5,329,300
Common Stock, par value $5 per share—authorized 1,500,000 shares; outstanding 1,101,763 shares (outstanding at February 3, 1968, 1,029,685 shares)—Note F	5,508,815	5,148,425
Capital in addition to par value of shares	13,520,233	10,976,680
Earnings retained for use in the business—Note E	33,192,064	32,008,866
TOTAL STOCKHOLDERS' INVESTMENT	57,351,712	53,463,271
COMMITMENTS—Note H		
	$81,633,767	$74,084,062

See notes to financial statements.

STATEMENT OF STOCKHOLDERS' INVESTMENT

	Year Ended	
	(52 Weeks) February 1, 1969	*(53 Weeks) February 3, 1968*
CAPITAL STOCK		
Preferred Stock:		
Balance at beginning of year	$ 5,329,300	$ 5,448,900
Less shares acquired for treasury during year	198,700	119,600
	5,130,600	5,329,300
Common Stock:		
Balance at beginning of year	5,148,425	4,903,260
Stock dividend	360,390	245,165
	5,508,815	5,148,425
CAPITAL IN ADDITION TO PAR VALUE OF SHARES		
Balance at beginning of year	10,976,680	9,453,407
Add excess of amount charged against earnings retained for use in the business over the par value of Common Stock issued as stock dividend	2,522,730	1,520,023
	13,499,410	10,973,430
Add discount on acquisition of $5 Cumulative Preferred Stock	20,823	3,250
	13,520,233	10,976,680
EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at beginning of year	32,008,866	30,013,785
Add net earnings for the year	5,648,547	5,263,851
	37,657,413	35,277,636
Deduct:		
Cash dividends on Preferred Stock—$5 per share	260,514	267,960
Cash dividends declared on Common Stock—$1.20 per share	1,321,715	1,235,622
Stock dividends declared February 21, 1968, and February 15, 1967—seven shares and five shares, respectively, for each one hundred shares outstanding:		
Paid April 15, 1968 and 1967, 72,078 shares and 49,033 shares on the basis of $40 and $36, respectively, per share	2,883,120	1,765,188
	4,465,349	3,268,770
Earnings Retained for Use in the Business	33,192,064	32,008,866
TOTAL STOCKHOLDERS' INVESTMENT	$57,351,712	$53,463,271

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Note A—The flexible charge accounts receivable include Company's equity in accounts sold without recourse to a bank—$777,531 and $544,245 in accounts aggregating $7,775,310 and $5,442,446 sold at February 1, 1969 and February 3, 1968, respectively.

Note B—Inventories of merchandise on hand and in transit are priced at cost on the last-in, first-out basis, determined under principles and by the use of published indices of price changes approved by the Commissioner of Internal Revenue with respect to department stores generally. Such basis of pricing resulted in aggregate amounts for inventories at February 1, 1969 and February 3, 1968 of approximately $3,910,000 and $3,284,000, respectively, less than the amounts which would have been determined under the retail inventory method without regard to last-in, first-out principles. Amounts for opening and closing inventories determined on the basis above described and used in the computation of cost of goods sold were $14,982,072 and $16,625,676, respectively.

Note C—Sinking fund provisions of the $5 Cumulative Preferred Stock require that on April 1st of each year the Company shall redeem shares of such class of stock in an amount of par value equal to two per cent of the greatest amount at any time outstanding after February 1, 1948, and prior to the date of such redemption. In compliance with such provisions, 1,987 shares of the $5 Cumulative Preferred Stock were redeemed on April 1, 1968, and retired May 28, 1968.

Dividends on the $5 Cumulative Preferred Stock have been paid to January 1, 1969, a dividend date.

Note D—Provision for federal and state income taxes charged to earnings for years ended February 1, 1969 and February 3, 1968 includes $348,000 and $206,000, respectively, resulting principally from the use, for tax purposes, of accelerated depreciation methods, and the installment method of accounting for flexible charge and deferred payment sales. The tax provision for the years ended February 1, 1969 and February 3, 1968 has been reduced by $308,000 and $340,000, respectively, these amounts being the tax effect of pension cost charged to operations but not deductible currently for taxes—see Note G. All of the investment tax credits available for the years ended February 1, 1969 and February 3, 1968 in the amounts of $244,000 and $58,000, respectively, have been applied in reduction of the annual provision for income taxes.

Note E—The portion of long-term debt due after one year (excluding amounts advanced under the construction loan agreement referred to in the next paragraph) with interest primarily at 4¾% to 5½% consists of the following: Term notes of $2,225,000 payable to a bank and others in twelve annual installments ranging from $75,000 to $200,000; $1,890,000 payable to a bank and others in fifteen annual installments ranging from $55,000 to $170,000; and a note ($759,045) due in four years. The covenants of the most restrictive of these loan agreements provide, among other things, that while the loan remains unpaid the Company will maintain minimum working capital of $12,500,000, and that the aggregate after February 1, 1964, of payments of dividends (other than dividends paid in capital stock of the Company) and purchases of capital stock will not exceed the sum of $4,000,000 plus the amount of earnings accumulated after February 1, 1964. The amount of earnings retained for use in the business which was unrestricted by these provisions was $19,808,769 at February 1, 1969.

In 1967, the Company entered into an Installment Sale Agreement with the Redevelopment Authority of the City of Philadelphia providing for the purchase from the Authority of land and improvements

NOTES TO FINANCIAL STATEMENTS (continued)

for a Distribution Center, the cost of which will be financed by a mortgage note payable to a bank over a period of 25 years for an amount not to exceed $6,700,000. In connection therewith the Company agrees to perform all of the Authority's obligations under the mortgage note. At February 1, 1969, principle and interest aggregating $770,075 has been advanced under a construction loan agreement.

Note F— On February 28, 1969, the Board of Directors declared a dividend on Common Stock, payable in shares of Common Stock at the rate of seven dividend shares for each one hundred shares outstanding. The dividend shares, not exceeding 77,123 in the aggregate (including option cards for fractional shares) are to be issued April 15, 1969 to holders of record at the close of business March 14, 1969. In connection with this dividend the Board of Directors authorized transfers from Earnings Retained for Use in the Business to (a) Capital Stock, the sum of $5 (par value) for each dividend share, and (b) to Capital in Addition to Par Value of Shares, the sum of $46 for each dividend share.

Note G—The Company has a non-contributory Retirement Benefit Plan providing for payment of pension benefits under specified conditions to eligible employees who retire with fifteen years of credited service. In addition the Company has entered into employment contracts with certain key executives under a Deferred Compensation Plan which provides for payment of specified benefits upon disability, death and retirement. Since the adoption of this Plan the Company has made an annual provision in an amount considered adequate to cover the ultimate cost of such benefits.

The total expense for both Plans for the year was $1,299,438, which includes amortization of past service cost of the Retirement Benefit Plan over forty years. The actuarially computed value of the pension benefits for both Plans which are not funded and which are expected to become payable to former employees who have retired and to present employees who are expected to receive pension benefits upon retirement, exceeded the balance sheet accruals at the most recent valuation date by approximately $7,938,000. The Company has reserved the right to amend or discontinue the Plans and all payments under the Retirement Benefit Plan.

Note H—Commitments—At February 1, 1969, the Company was lessee under eleven leases with terms, if renewal options are exercised, of not less than twenty years from the above date in each case. The annual minimum rentals under these leases is $2,071,344 plus, in certain instances, real estate taxes, insurance and similar charges, and increased amounts based on percentages of sales.

The Company was committed to complete construction in progress, which at February 1, 1969, approximated $7,400,000. Of this amount, $6,000,000 is being financed by a construction loan—see Note E. In addition, the Company is committed to the purchase of equipment in the amount of $820,000.

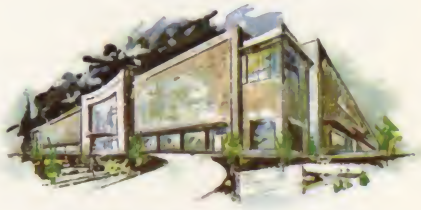
Strawbridge & Clothier stores strategically encircle the prosperous and growing Delaware Valley. With the completion of Echelon Mall in 1970, and with other locations planned for the future, the Company pursues the objective of effectively serving our expanding trading area.

PHILADELPHIA

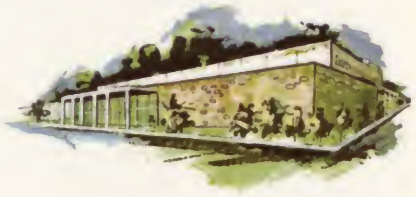
AT EIGHTH AND MARKET STREETS
FOR OVER ONE HUNDRED YEARS

ARDMORE—1930

JENKINTOWN—1931

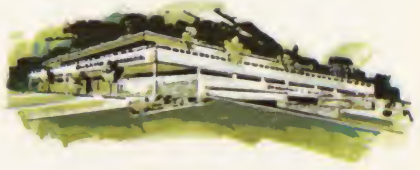


WILMINGTON—1952



CHERRY HILL—1961

SPRINGFIELD—1964



PLYMOUTH MEETING—1966

NESHAMINY—1968